



PATRIOT ONE TECHNOLOGIES INC.

Unaudited Condensed Consolidated Interim Financial Statements

Three months ended October 31, 2018

Notice of No Auditors Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the unaudited condensed consolidated interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

The Company's independent auditors have not performed a review of these unaudited interim condensed consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor

PATRIOT ONE TECHNOLOGIES INC.

Consolidated Statements of Financial Position

| | October 31, 2018 | July 31, 2018 |
|---|----------------------|----------------------|
| | (unaudited) | (audited) |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 26,548,058 | \$ 17,576,735 |
| Short term investments | 5,064,972 | 15,060,055 |
| Receivables | 393,398 | 482,898 |
| Prepaid expenses and deposits | 577,355 | 403,437 |
| Inventory | 217,181 | 204,165 |
| | <hr/> 32,800,964 | <hr/> 33,727,290 |
| Property, plant and equipment | 608,722 | 564,662 |
| | <hr/> | <hr/> |
| Total assets | \$ 33,409,686 | \$ 34,291,952 |
| | <hr/> | <hr/> |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 1,413,197 | \$ 757,824 |
| | <hr/> | <hr/> |
| Shareholders' equity | | |
| Share capital (Note 5) | 51,054,280 | 49,232,014 |
| Contributed surplus | 5,871,290 | 4,628,954 |
| Accumulated deficit | (24,929,081) | (20,326,840) |
| | <hr/> 31,996,489 | <hr/> 33,534,128 |
| | <hr/> | <hr/> |
| Total liabilities and shareholders' equity | \$ 33,409,686 | \$ 34,291,952 |
| | <hr/> | <hr/> |

Reporting entity (Note 1)
Commitments (Note 8)
Subsequent events (Note 9)

Approved on behalf of the Board:

"Martin Cronin"

Director, Chief Executive Officer

"Scott Shepherd"

Director

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

PATRIOT ONE TECHNOLOGIES INC.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss for the three months ended October 31,
(Unaudited)

| | <u>2018</u> | <u>2017</u> |
|--|-----------------------|-----------------------|
| Other income | | |
| Interest income | \$ 156,290 | \$ - |
| Expenses | | |
| Advertising and marketing | 668,941 | 149,271 |
| Business development | 494,490 | 141,333 |
| Conferences and trade shows | 78,726 | 78,754 |
| Depreciation and amortization | 62,353 | 2,149 |
| General and administration | 395,204 | 134,100 |
| Licensing | 45,392 | 25,214 |
| Personnel costs | 489,425 | 279,339 |
| Professional fees | 247,511 | 16,898 |
| Research and development | 915,268 | 682,141 |
| Share-based compensation (Note 5) | 1,361,221 | 179,225 |
| | <u>4,758,531</u> | <u>1,688,424</u> |
| Loss and comprehensive loss for the periods | \$ (4,602,241) | \$ (1,688,424) |
| Weighted average number of shares | 113,425,367 | 66,766,282 |
| Basic and diluted loss per share | \$ (0.04) | \$ (0.03) |

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

PATRIOT ONE TECHNOLOGIES INC.

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

| | Share Capital | | Share Subscriptions | Contributed surplus | Accumulated deficit | Total |
|--|--------------------|----------------------|---------------------|---------------------|------------------------|----------------------|
| | Number of shares | Amount | | | | |
| Balance - July 31, 2018 | 110,957,029 | \$ 49,232,014 | \$ - | \$ 4,628,954 | \$ (20,326,840) | \$ 33,534,128 |
| Shares issued on the exercise of warrants | 5,106,665 | 1,563,331 | - | (80,059) | - | 1,483,272 |
| Shares issued on the exercise of stock options | 312,500 | 258,935 | - | (38,826) | - | 220,109 |
| Share-based compensation (Note 5) | - | - | - | 1,361,221 | - | 1,361,221 |
| Net loss for the period | - | - | - | - | (4,602,241) | (4,602,241) |
| Balance - October 31, 2018 | 116,376,194 | \$ 51,054,280 | \$ - | \$ 5,871,290 | \$ (24,929,081) | \$ 31,996,489 |
| Balance - July 31, 2017 | 60,605,716 | \$ 7,110,602 | \$ 4,628,750 | \$ 2,113,167 | \$ (8,341,064) | \$ 5,511,455 |
| Shares issued for cash, net of share issue costs | 16,300,821 | 13,676,988 | (4,628,750) | 759,911 | - | 9,808,149 |
| Shares issued on the exercise of warrants | 6,069,161 | 1,633,819 | - | (28,456) | - | 1,605,363 |
| Shares issued on the exercise of stock options | 212,000 | 84,080 | - | (20,480) | - | 63,600 |
| Share subscriptions received | - | - | 12,000 | - | - | 12,000 |
| Share-based compensation | - | - | - | 179,225 | - | 179,225 |
| Net loss for the period | - | - | - | - | (1,688,424) | (1,688,424) |
| Balance - October 31, 2017 | 83,187,698 | \$ 22,505,489 | \$ 12,000 | \$ 3,003,367 | \$ (10,029,488) | \$ 15,491,368 |

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

PATRIOT ONE TECHNOLOGIES INC.

Condensed Consolidated Interim Statements of Cash Flows for the three months ended October 31,
(Unaudited)

| | 2018 | 2017 |
|--|----------------------|----------------------|
| Cash flow (used in) operating activities | | |
| Loss for the period | \$ (4,602,241) | \$ (1,688,424) |
| Adjustment for: | | |
| Share-based compensation (Note 5) | 1,361,221 | 179,225 |
| Depreciation and amortization | 62,353 | 2,149 |
| | (3,178,667) | (1,507,050) |
| Changes in non-cash operating working capital | | |
| Receivables | 89,500 | 42,203 |
| Prepaid expenses and deposits | (173,918) | (2,764) |
| Inventory | (13,016) | (95,508) |
| Accounts payable and accrued liabilities | 655,373 | (209,082) |
| Cash (used) in operating activities | (2,620,728) | (1,772,201) |
| Cash flow from investing activities | | |
| Purchase of property, plant and equipment | (106,413) | (29,925) |
| Reclassification of short term investments to cash | 9,995,083 | - |
| Cash received from (used in) investing activities | 9,888,670 | (29,925) |
| Cash flow from financing activities | | |
| Proceeds on issue of share capital, net of share issue costs | 1,703,381 | 12,056,411 |
| Share subscriptions received | - | 12,000 |
| Cash received from financing activities | 1,703,381 | 12,068,411 |
| Increase in cash for the period | 8,971,323 | 10,266,285 |
| Cash and cash equivalents at beginning of period | 17,576,735 | 5,184,904 |
| Cash and cash equivalents at end of period | \$ 26,548,058 | \$ 15,451,189 |
| Cash and cash equivalents comprise: | | |
| Cash | \$ 1,275,112 | \$ 15,451,189 |
| Cash equivalents | 25,272,946 | - |
| | \$ 26,548,058 | \$ 15,451,189 |

SUPPLEMENTAL CASH FLOW INFORMATION (Note 7)

The accompanying notes form an integral part of these condensed consolidated interim financial statements

PATRIOT ONE TECHNOLOGIES INC.

Notes to Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2018 and 2017
(Unaudited)

1. Reporting entity

Patriot One Technologies Inc. (the "Company") was incorporated under the Business Corporation Act of British Columbia. Its common shares are listed on the TSX Venture Exchange ("TSX-V") as a Tier 2 issuer under the trading symbol "PAT". The Company, through its wholly owned subsidiaries Patriot One Detection Ltd. ("Patriot"), Patriot One (UK) Limited ("Patriot UK") and Patriot One Detection Technologies Inc ("Patriot US"), is principally engaged in the commercialization of a system to detect concealed weapons utilizing radar technologies. The Company's primary office is located at 750-1095 West Pender Street, Vancouver, British Columbia, Canada, V6E 2M6 and its registered and records office is located at 400-725 Granville Street, Vancouver, British Columbia, Canada, V7Y 1G5.

2. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements, including the comparative period, have been prepared in accordance with International Accounting Standard ("IAS 34"), *Interim Financial Reporting*. Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards have been omitted or condensed. These condensed consolidated interim financial statements were prepared using the same accounting policies and methods as those used in the audited consolidated financial statements of the Company for the year ended July 31, 2018 and should be read in conjunction with those financial statements.

These condensed consolidated interim financial statements were approved for issuance by the Board of Directors on December 31, 2018.

(b) Principles of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to directly or indirectly govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken in account in the assessment of whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date on which control ceases.

All significant intercompany balances and transactions have been eliminated on consolidation.

(c) Functional and presentation currency

The functional currency of the Company and its subsidiaries is the Canadian dollar and these condensed consolidated interim financial statements are presented in Canadian dollars.

(d) Basis of measurement

These condensed consolidated interim financial statements have been prepared on the historical cost basis, using the accrual basis of accounting, except for cash flow information.

PATRIOT ONE TECHNOLOGIES INC.

Notes to Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2018 and 2017
(Unaudited)

2. Basis of preparation (continued)

(e) Accounting assumptions, estimates and judgments

The preparation of the condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Actual results may differ from the estimates applied in the preparation of these condensed consolidated interim financial statements.

Significant areas having estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements include share-based payments, useful life of property, plant and equipment and the fair value of equity instruments issued in connection with private placements.

Critical judgments that management has made in applying the Company's accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements include: assessment of the Company's ability to continue as a going concern and determination of the classification of financial instruments.

(f) Comparative figures

Certain comparative figures have been reclassified to conform to the current period's financial statement presentation.

3. New standards and interpretations not yet adopted

The significant accounting policies that have been used in the preparation of these condensed consolidated interim financial statements are summarized in the Company's audited financial statements for the year ended July 31, 2018. In addition, effective August 1, 2018 the Company adopted IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers, however neither of these standards had a material impact on the Company's condensed consolidated interim financial statements.

IFRS 16 – Leases, specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lease accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The Company has not yet completed the process of assessing the impact of IFRS 16 will have on its consolidated financial statements, or whether to early adopt this new requirement. The Company will adopt IFRS 16 on August 1, 2019. The Company is still assessing the impact of this standard.

PATRIOT ONE TECHNOLOGIES INC.

Notes to Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2018 and 2017
(Unaudited)

4. License, Assignment and Option Fees

On April 29, 2016, Patriot entered into an agreement with Bullrun Capital Inc. ("Bullrun") wherein Bullrun agreed to assign to Patriot its option (the "Option Agreement") to obtain from McMaster University ("McMaster") a worldwide exclusive license to use or cause to be used certain radar technology used to detect concealed weapons (the "License Agreement") invented, developed and/or acquired by McMaster. As consideration for the Option Agreement, Patriot paid Bullrun a fee of \$60,000 and granted Bullrun a 2% royalty (the "Bullrun Royalty") to be paid on net sales of all commercial products developed under the License Agreement between McMaster and the Company. This royalty payable to Bullrun would be in addition to any royalties to be paid to McMaster by the Company.

The Company exercised its option and entered into the License Agreement with McMaster. In consideration for the License Agreement, the Company paid an up-front license fee of \$10,000 and issued 1,560,000 common shares with a fair value of \$78,000. In addition, the Company agreed to pay a royalty of 3.5% on net sales and from time to time, issue common shares of the Company to McMaster so that in the aggregate, shares held by McMaster represent 5% of the Company's issued and outstanding common shares calculated on a fully diluted basis. Such issuance continued until such time as a total of \$2,000,000 in cash was received by the Company in exchange for the Company's capital stock. Thereafter, no additional shares were due to McMaster. As at July 31, 2017, the Company had met this requirement and no additional shares will be issued to McMaster. In addition, the Company agreed to make minimum annual royalty payments as follows:

- first and second year \$2,500
- third year \$5,000
- fourth and subsequent years \$7,500

On October 26, 2016, Patriot entered into an amended agreement with Bullrun wherein both parties set out their mutual understandings and conclusively recorded the terms and conditions with respect to the Bullrun Royalty. In the amended agreement, Bullrun agreed to an equal division of the Bullrun Royalty between Bullrun and Rajni Singhera ("Singhera") to be paid on net sales of the licensed product in a calendar year, the amount of which is to be accrued and paid annually on March 31 of the following year. Payment of the Bullrun Royalty is subject to a minimum royalty threshold of \$100,000, the first payment of which is not payable until March 31, 2019 and then annually thereafter.

In the case where the Company's Board of Directors determines that the payment of the Bullrun Royalty would impact the ongoing operations of the Company, the annual payment for that year will be satisfied by the issuance of notes payable to Bullrun and Singhera which notes will mature two years from the date of issue and accrue interest at the Bank of Canada prime rate plus 3% per annum.

PATRIOT ONE TECHNOLOGIES INC.

Notes to Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2018 and 2017
(Unaudited)

5. Share capital

Authorized

The authorized share capital of the Company consists of an unlimited number of common shares with no par value.

Issued and outstanding

The issued and outstanding share capital for the three months ended October 31, 2018 and year ended July 31, 2018 is as follows:

| | Three months ended October 31, 2018 | | Year ended July 31, 2018 | |
|--|--|----------------------|-----------------------------|----------------------|
| | Number of shares | Amount | Number of shares | Amount |
| Balance at beginning of period | 110,957,029 | \$ 49,232,014 | 60,605,716 | \$ 7,110,602 |
| Shares issued on the exercise of warrants | 5,106,665 | 1,563,332 | 20,538,992 | 5,774,506 |
| Shares issued on the exercise of stock options | 312,500 | 258,934 | 861,500 | 533,039 |
| Shares issued for cash, net of share issue costs | - | - | 28,865,000 | 35,753,792 |
| Shares issued for agency fees | - | - | 32,250 | 22,575 |
| Shares issued for corporate finance fees | - | - | 53,571 | 37,500 |
| Balance at end of period | 116,376,194 | \$ 51,054,280 | 110,957,029 | \$ 49,232,014 |

On February 22, 2018, the Company issued 12,650,000 units (the "Units") for gross proceeds of \$25,300,000 pursuant to a bought deal equity financing. Each Unit consisted of one common share and one half of a common share purchase warrant (each whole common share purchase warrant, a "Warrant"). These 6,325,000 Warrants allow the holders to acquire an additional common share at \$2.40 per share until February 16, 2021. The Company paid the agents a cash commission of \$1,771,000 and \$97,120 for legal costs of the agents.

The Company issued 885,500 broker warrants exercisable at \$2.00 per share until February 16, 2020. The fair value of these broker warrants was \$1,124,076, which along with the other costs of this financing was deducted from the value of the common shares. The fair value of the broker warrants was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

| | |
|--|------------------|
| Expected life | 2 years |
| Expected volatility in market price of shares | 100% |
| Expected dividend rate | 0% |
| Risk-free interest rate | 1.82% |
| Weighted average fair value per warrant granted | \$ 1.2694 |

PATRIOT ONE TECHNOLOGIES INC.

Notes to Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2018 and 2017
(Unaudited)

5. Share capital (continued)

On October 31, 2017, the Company issued 9,602,500 units (the "Units") for gross proceeds of \$11,523,000 pursuant to a bought deal equity financing. Each Unit consisted of one common share and one half of a common share purchase warrant (each whole common share purchase warrant, a "Warrant"). These 4,801,250 Warrants allow the holders to acquire an additional common share at \$1.70 per share until October 31, 2020. The Company paid the agents a cash commission of \$806,610 and \$84,143 for legal costs of the agents.

The Company issued 672,175 broker warrants exercisable at \$1.20 per share until October 31, 2019. The fair value of these broker warrants was \$568,239, which along with the other costs of this financing was deducted from the value of the common shares. The fair value of the broker warrants was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

| | |
|---|-----------|
| Expected life | 2 years |
| Expected volatility in market price of shares | 100% |
| Expected dividend rate | 0% |
| Risk-free interest rate | 1.39% |
| <hr/> | |
| Weighted average fair value per warrant granted | \$ 0.8454 |

On August 29, 2017, the Company issued 6,612,500 units (the "Units") for gross proceeds of \$4,628,750 pursuant to a brokered private placement. Each unit consisted of one common share and one half of a common share purchase warrant (each whole common share purchase warrant, a "Warrant"). These 3,306,250 Warrants allow the holders to acquire an additional common share at \$1.25 per share until July 13, 2020. The Company paid the agents a cash commission of \$301,438, a corporate finance fee of \$37,500 and \$65,500 for legal costs of the agents. In addition, the Company issued 32,250 common shares valued at \$22,575 as an agency fee and 53,571 common shares valued at \$37,500 as a corporate finance fee.

The Company issued 462,875 broker warrants exercisable at \$1.00 per common share until July 13, 2020 and 16,125 agency fee warrants exercisable at \$1.25 per common share until July 12, 2020. The fair value of the broker warrants was \$188,036 and the fair value of the agency fee warrants was \$6,016, which along with the other costs of this financing have deducted from the value of the common shares. The fair value of the broker warrants was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

| | | |
|---|--------------------|------------------------|
| | Broker warrants | Agency fee warrants |
| Expected life | 3 years | 3 years |
| Expected volatility in market price of shares | 100% | 100% |
| Expected dividend rate | 0% | 0% |
| Risk-free interest rate | 0.87% | 0.87% |
| <hr/> | | |
| Weighted average fair value per warrant granted | \$ 0.4062 | \$ 0.3731 |

PATRIOT ONE TECHNOLOGIES INC.

Notes to Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2018 and 2017
(Unaudited)

5. Share capital (continued)

Warrants

Warrant activity for the three months ended October 31, 2018 and year ended July 31, 2018 is as follow:

| | Three months ended October 31, 2018 | | Year ended July 31, 2018 | |
|-------------------------------------|--|--|-----------------------------|--|
| | Number of warrants | Weighted average exercise price | Number of warrants | Weighted average exercise price |
| Balance at beginning of the period | 24,095,014 | \$ 1.35 | 28,164,831 | \$ 0.26 |
| Exercised | (5,106,665) | 0.30 | (20,538,992) | 0.26 |
| Issued | - | - | 16,469,175 | 1.85 |
| Balance at end of the period | 18,988,349 | \$ 1.63 | 24,095,014 | \$ 1.35 |

As at October 31, 2018, outstanding warrants are as follows:

| Number of Warrants Outstanding | Weighted Average Exercise Price | Expiry Date | Weighted Average Life Remaining (months) |
|--------------------------------------|--|-------------------|---|
| 1,036,850 | \$0.30 | November 9, 2018 | 0.3 |
| 1,666,370 | \$0.20 | June 27, 2019 | 8.0 |
| 672,175 | \$1.20 | October 31, 2019 | 12.0 |
| 885,500 | \$2.00 | February 16, 2020 | 15.5 |
| 3,278,300 | \$1.25 | July 13, 2020 | 20.5 |
| 177,904 | \$1.00 | July 13, 2020 | 20.5 |
| 4,796,250 | \$1.70 | October 31, 2020 | 24.0 |
| 150,000 | \$1.00 | November 18, 2020 | 24.0 |
| 6,325,000 | \$2.40 | February 16, 2021 | 27.5 |
| 18,988,349 | \$1.63 | | 21.0 |

PATRIOT ONE TECHNOLOGIES INC.

Notes to Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2018 and 2017
(Unaudited)

5. Share capital (continued)

Stock options

The Company offers an incentive stock option plan that provides for the granting of options up to 10% of its issued and outstanding common shares to directors, officers, employees and consultants. The exercise price of each option is equal to the quoted market price of the Company's common shares on the trading day immediately preceding the date of grant and the maximum term is five years. Vesting terms, if any, are set at the discretion of the Board.

The stock option activity for the three months ended October 31, 2018 and year ended July 31, 2018 is as follow:

| | Three months ended October 31, 2018 | | Year ended July 31, 2018 | |
|-----------------------------------|--|--|-----------------------------|--|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Balance at beginning of the year | 6,030,000 | \$ 0.62 | 5,356,500 | \$ 0.41 |
| Granted | 725,000 | 2.42 | 1,535,000 | 1.32 |
| Exercised | (312,500) | 0.57 | (861,500) | 0.42 |
| Cancelled | (62,500) | 0.65 | - | - |
| Balance at end of the year | 6,380,000 | \$ 0.83 | 6,030,000 | \$ 0.62 |

Details of the outstanding stock options as at October 31, 2018 are as follows:

| Number of Stock Options Outstanding | Weighted Average Exercise price | Expiry Date | Weighted Average Life Remaining (months) | Number of Stock Options Exercisable | Weighted Average Exercise Price |
|--|--|--------------------|---|--|--|
| 50,000 | \$ 1.00 | September 15, 2020 | 22.5 | 50,000 | \$ 1.00 |
| 200,000 | \$ 1.44 | December 14, 2020 | 25.5 | 200,000 | \$ 1.44 |
| 150,000 | \$ 1.71 | February 22, 2021 | 28.0 | 150,000 | \$ 1.71 |
| 345,000 | \$ 1.30 | June 22, 2021 | 32.0 | 280,000 | \$ 1.30 |
| 250,000 | \$ 1.35 | July 10, 2021 | 32.5 | 250,000 | \$ 1.35 |
| 430,000 | \$ 0.30 | August 1, 2021 | 33.5 | 430,000 | \$ 0.30 |
| 985,000 | \$ 0.185 | October 3, 2021 | 35.0 | 985,000 | \$ 0.185 |
| 1,515,000 | \$ 0.30 | October 3, 2021 | 35.0 | 1,515,000 | \$ 0.30 |
| 1,165,000 | \$ 0.65 | May 18, 2022 | 42.5 | 1,165,000 | \$ 0.65 |
| 125,000 | \$ 0.65 | September 5, 2022 | 46.0 | 125,000 | \$ 0.65 |
| 25,000 | \$ 0.73 | October 2, 2022 | 47.0 | 25,000 | \$ 0.73 |
| 190,000 | \$ 1.47 | November 1, 2022 | 48.0 | 190,000 | \$ 1.47 |
| 150,000 | \$ 1.82 | March 22, 2023 | 52.0 | 37,500 | \$ 1.82 |
| 75,000 | \$ 1.61 | April 4, 2023 | 53.0 | 75,000 | \$ 1.61 |
| 50,000 | \$ 1.62 | August 23, 2023 | 58.0 | 50,000 | \$ 1.62 |
| 675,000 | \$ 2.48 | October 15, 2023 | 59.5 | 675,000 | \$ 2.48 |
| 6,380,000 | \$ 0.83 | | 39.2 | 6,202,500 | \$ 0.80 |

PATRIOT ONE TECHNOLOGIES INC.

Notes to Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2018 and 2017
(Unaudited)

5. Share capital (continued)

During the three months ended October 31, 2018, the Company recognized share-based compensation related to stock options of \$1,361,221 (2017 - \$179,225). The compensation expense was based on the fair value of each stock option on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

| | Three months ended | |
|--|--------------------|-----------|
| | 2018 | 2017 |
| Expected life | 5.0 years | 5.0 years |
| Expected volatility in market price of shares | 100.0% | 100.0% |
| Expected dividend rate | 0% | 0% |
| Risk-free interest rate | 1.64% | 0.87% |
| Weighted average fair value per option granted | \$ 1.81 | \$ 0.10 |

Loss per share

Stock options and warrants are not included in the determination of fully diluted loss per share for the three months ended October 31, 2018 and 2017 as these instruments are anti-dilutive.

Escrow securities

Pursuant to a TSX-V Form 5D Escrow Agreement among the Company, TSX Trust Company and certain securityholders of the Company, a total of 10,248,001 shares, 1,023,000 share purchase warrants, and 2,100,000 incentive stock options of the Company (collectively the "Escrowed Securities") were to be held in escrow. The Escrowed Securities are to be released at 10% on the date of the Transaction and an additional 15% every six months thereafter with the final tranche being released on November 10, 2019. As at October 31, 2018 there are 4,830,101 common shares, 167,850 share purchase warrants, and 933,750 stock options of the Company are being held in escrow.

6. Related party transactions

Key management personnel include persons having the authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Board of Directors and corporate officers. Key management compensation incurred with officers and directors of the Company or to companies controlled by officers and directors of the Company during the three months ended October 31, 2018 was \$199,730 (2017 - \$157,923). In addition, share-based compensation expense relating to officers and directors for the three months ended October 31, 2018 was \$Nil (2017 - \$54,180).

As at October 31, 2018 accounts payable and accrued liabilities includes \$25,861 (July 31, 2018 - \$Nil) due to officers and directors of the Company or to companies controlled by directors and officers of the Company.

PATRIOT ONE TECHNOLOGIES INC.

Notes to Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2018 and 2017
(Unaudited)

7. Supplemental Cash Flow Information

Non-cash activities conducted by the Company during the three months ended October 31, 2018 were as follows:

| | |
|--|-----------|
| Transfer of contributed surplus on exercise of broker warrants | \$ 38,826 |
| Transfer of contributed surplus on exercise of stock options | \$ 80,059 |

Non-cash activities conducted by the Company during the three months ended October 31, 2017 were as follows:

| | |
|--|------------|
| Fair value of 53,371 common shares issued as corporate finance fee | \$ 37,500 |
| Fair value of 32,250 common shares issued for agency fee | \$ 22,575 |
| Fair value of 672,175 warrants issued for broker fees | \$ 565,860 |
| Fair value of 462,875 warrants issued for broker fees | \$ 188,036 |
| Fair value of 16,125 warrants issued for agency fee | \$ 6,015 |
| Transfer of contributed surplus on exercise of broker warrants | \$ 28,456 |
| Transfer of contributed surplus on exercise of stock options | \$ 20,480 |

8. Commitments

Operating lease commitments

The Company is committed to various operating leases for office premises with remaining terms up to Jan 2024. For the fiscal years ended July 31, the future minimum lease payments under these operating leases are as follows:

| | |
|------------|--------------|
| 2019 | \$ 303,830 |
| 2020 | 474,899 |
| 2021 | 414,638 |
| 2022 | 356,485 |
| 2023 | 356,485 |
| thereafter | 178,242 |
| | <hr/> |
| | \$ 2,084,579 |

9. Subsequent events

Subsequent to October 31, 2018, the Company:

- issued 18,400,000 units (the "Units") at \$2.50 per Unit pursuant to a bought deal equity financing for net proceeds of \$42,684,149, net of commission to underwriters of \$3,220,000 and \$95,851 for legal fees and costs of the underwriters. Each Unit consisted of one common share and one common share purchase warrant. These 18,400,000 warrants allow the holders to acquire an additional common share at \$3.25 per share until November 21, 2020. In addition, the underwriters received 1,288,000 agent warrants that allow holders to acquire 1,288,000 common shares at \$2.50 per share until November 21, 2020;
- granted stock options to allow the holders to acquire 405,000 common shares at \$2.01 per share for a term of five years;

PATRIOT ONE TECHNOLOGIES INC.

Notes to Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2018 and 2017
(Unaudited)

9. Subsequent events (continued)

- c. issued 35,000 common shares for cash of \$51,450 on the exercise of stock options and 1,021,850 common shares for cash of \$306,555 on the exercise of warrants; and
- d. entered into an agreement to acquire 100% of the issued and outstanding shares of EhEye Inc. (“EhEye”), a company incorporated under the laws of New Brunswick, Canada for consideration of 1,636,363 common shares of the Company (the “Transaction”). In addition, the Company will grant up to 277,775 stock options to directors, officers and employees of EhEye to replace existing options in EhEye. EhEye has developed video threat recognition software that automates the detection of weapons, disturbances and suspicious behaviours through existing camera infrastructure, which the Company believes this will compliment its covert weapon detection system. The Transaction is subject to a number of standard closing conditions, including any required approvals of the TSX Venture Exchange.